

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 99-111

September 21, 2000

MAINE PUBLIC UTILITIES COMMISSION  
Standard Offer Bidding Procedure

ORDER RAISING STANDARD  
OFFER PRICES IN BANGOR  
HYDRO-ELECTRIC  
COMPANY'S SERVICE  
TERRITORY

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

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**I. SUMMARY**

Through this Order, we increase standard offer prices for all customer classes in Bangor Hydro-Electric Company's (BHE) service territory by 32.5% effective October 1, 2000. This increase is necessary to avoid a deficiency in standard offer revenues that BHE projects would otherwise result based on actual costs already incurred and projected costs through February 2001.<sup>1</sup>

**II. BACKGROUND**

On February 29, 2000, the Commission issued an order adopting BHE's proposed strategy for acquiring power supply to serve standard offer load in its service territory. *Order Authorizing Bangor Hydro-Electric Company to Contract for Wholesale Power Supply and Establishing Standard Offer Prices*, Docket No. 99-111 (Feb. 29, 2000). Pursuant to this strategy, BHE entered into a wholesale supply contract to meet approximately 60% of the expected standard offer load. The remaining standard offer supply requirements would be met through the ISO-NE spot market. In the February 29<sup>th</sup> Order, the Commission also administratively set standard offer prices for BHE customers. The Commission set prices at \$.045/kWh for residential/small non-residential customers and adopted seasonally and time-differentiated prices that averaged \$.049/kWh for medium and large commercial and industrial customers. These prices were based on BHE's projected cost of providing standard offer service. The Commission noted in its Order that it would monitor actual standard offer supply costs and consider changing standard offer prices if they did not reasonably reflect actual costs.

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<sup>1</sup>The 32.5% increase in standard offer prices equates to approximately a 10-12% increase in total electricity rates for customers on the standard offer.

On July 20, 2000, we issued an Order raising standard offer prices to produce an additional \$1 million in revenue.<sup>2</sup> *Order Regarding Standard Offer Prices for Customers in Bangor Hydro-Electric Company's Service Territory*, Docket No. 99-111 (July 20, 2000). This increase resulted primarily from the cost of supply contracts that BHE entered to reduce exposure to high spot market prices during the summer months. See *Order Approving Standard Offer Contract*, Docket No. 99-111 (June 23, 2000); *Order Approving Supply Contracts*, Docket No. 99-111 (June 15, 2000). The increase was ordered because, after accounting for the costs of these contracts, BHE projections indicated that standard offer costs would exceed revenues by \$1 million at the end of the standard offer period.

On September 13, 2000, BHE filed a request that the Commission amend standard offer prices for all customer classes. Specifically, BHE proposed a 23.14% increase for each customer class.<sup>3</sup> In its filing, BHE stated that it now projects standard offer costs to exceed revenues by approximately \$5.6 million at the end of the standard offer period if rates remain unchanged. BHE explained that the projected deficiency results from sustained increases in energy spot market prices, which it expects to continue, and from significantly higher installed capability (ICAP) prices than projected for the months of April, May, June, and July. BHE indicated that an increase in standard offer prices is necessary to avoid a substantial deferral of costs and to promote competition by removing artificially low standard offer rates.

On September 15, 2000, BHE filed a report containing updated actual costs and cost projections for standard offer power supply. The filing indicated that the prior filing contained a clerical error in the amount of \$1.5 million arising from the inadvertent omission of an expense which BHE incurred in August. In addition, the report was updated to reflect the fact that the cost of power for September had increased significantly since the beginning of the month and, as a result, BHE adjusted its projected costs for the spot market purchases by approximately \$0.8 million for the remainder of the standard offer term. Based on the updated market information and the correction to the August costs, BHE estimated that the costs of providing standard offer service would exceed the revenues by \$7.9 million. Thus, BHE stated that a 32.5% increase in standard offer rates appears necessary to avoid a deficiency at the end of the standard offer period.

The Commission provided interested persons an opportunity to comment on whether standard offer prices should increase. Competitive Energy Services (CES)

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<sup>2</sup>This was an increase in estimated standard offer revenues of approximately 1.7%.

<sup>3</sup>On September 15, 2000, BHE filed a letter stating that its September 13, 2000 submission was not a petition for formal Commission action, but rather an informational filing made in conjunction with its ongoing administration of the standard offer program. BHE stated that it takes no position on whether the Commission should act at this time to avoid a deficiency in standard offer revenues.

filed comments, stating that the standard offer approach in BHE's territory was problematic because customers had the mistaken belief that standard offer prices would not rise. Michael J. Mayhew commented that BHE did not fulfill its obligation to obtain a low cost power supply for its ratepayers.

### III. DECISION

We decide that standard offer rates for customers in BHE's service territory for the period October 1, 2000 through February 28, 2001 will increase by 32.5% to recover the \$7.9 million deficiency that BHE estimates would otherwise exist at the end of the standard offer period. Thus, the standard offer rates, effective October 1, 2000, will be as follows:

<u>Standard Offer Class</u>	<u>Price</u>
Residential/Small Non-Residential	\$0.06106/kWh
Medium Non-Residential	\$0.06127/kWh
Large Non-Residential      On-Peak	\$0.07041/kWh
Large Non-Residential      Shoulder	\$0.06201/kWh
Large Non-Residential      Off-Peak	\$0.0510/kWh

In our July 20, 2000 Order regarding BHE's standard offer prices, we stated:

We are aware that price increases place burdens on BHE's customers. However, to promote the development of a competitive electricity market in Maine, the price of standard offer service must reflect actual costs. To do otherwise would discourage competition and jeopardize the ultimate benefits intended by the restructuring of the industry. Additionally, avoiding rate increases now by deferring excess costs for later recovery does not eliminate the need for customers to pay those costs; customers simply pay the costs later in time. Deferrals of excess costs do not protect customers from increased market costs and volatility; deferrals simply mask them.

BHE Order at 6. We also noted that, as is always the case with such deferrals, delaying the recovery of costs until a later time also creates the possibility that these costs will be borne by customers who were not taking service when the costs were incurred, as well as the risk that customers for whom these costs were incurred would not bear them.

Our position as stated in the July 20, 2000 Order remains unchanged. The price for standard offer should continue to reflect its underlying costs. Accordingly, we will

adjust prices to avoid the potential for substantial deferrals and to assure that standard offer rates continue to be reflective of the costs to provide service.

Dated at Augusta, Maine, this 21st day of September, 2000.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Nugent  
   Diamond

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Civil Procedure, Rule 73, et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

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